



HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

B-71 Cannon HOB ■ Washington, DC 20515 ■ 202-226-7200 ■

October 21, 2005

Budget Update: Amended Budget Resolution Means Deeper Cuts In Important Services To Fund Tax Cuts

Overview

Wednesday's decision to postpone a vote on the misguided Republican plan to require deeper cuts to important services is a victory for the American people. Unfortunately, the Republican leadership has not yet cancelled consideration of the plan, which is now scheduled to come to the House floor next week. Now it looks like the budget amendment will include not just mandatory cuts but also an across-the-board cut to appropriations. Other elements may be included to address rescissions and to repeal programs that House appropriators have not funded.

If current plans hold, the budget resolution amendment would increase reconciled mandatory spending cuts by 44 percent, from \$35 billion to \$50 billion, as well as propose an across-the-board cut to appropriations. The precise nature of the appropriations cut has not yet been announced, but the Chairman of the Budget Committee has proposed a 2 percent cut to all appropriations.

It is not certain whether the Republican leadership will be able to generate sufficient votes to pass this badly flawed legislation. If the legislation does come to the floor – whatever its final details – it is clear that it makes a bad budget even worse, with deeper funding cuts to finance the latest round of Republican tax cuts. The following points should be kept in mind:

- **Any spending cuts will be used to offset tax cuts, not the costs of hurricane response.** Long before the hurricanes, the budget resolution called for \$35 billion in mandatory spending reductions as a partial offset to the \$106 billion in tax cuts included in the budget resolution.
- **Spending cuts threaten vital services, including services for hurricane victims.** A number of the programs that may be cut, like food stamps and Medicaid, benefit victims of Hurricanes Katrina and Rita.
- **The revised budget resolution will still increase the deficit by more than \$100 billion over five years.**
- **Republicans' purported interest in offsetting hurricane costs reveals a double standard.** Why should the cost of rebuilding Biloxi be offset but not the cost of rebuilding Baghdad?

Major Points

Spending Cuts Offset Tax Cuts, Not Hurricane Costs — Long before the hurricanes, the budget resolution called for \$35 billion in mandatory spending reductions as a partial offset to the \$106 billion in tax cuts included in the budget resolution, \$70 billion of which is facilitated by fast-track reconciliation procedures. Because the amendment to the budget resolution is not expected to revise revenue policy, any spending cuts included in the resolution will continue to offset these tax cuts, not the cost of hurricane relief.

Republican Claims About Offsetting Hurricane Costs Reveal Double Standard — The Republican claim about offsetting the cost of hurricane relief is inconsistent with the decision in recent years not to offset tax cuts or supplemental funding for Iraq and other purposes. Why does the Republican leadership insist on offsetting the cost of rebuilding Biloxi but not the cost of rebuilding Baghdad?

Spending Cuts Threaten Vital Services, Including Services for Hurricane Victims — Committees are struggling to find the reconciliation spending cuts of \$35 billion. Even some Republicans are expressing concerns about cuts to programs like Medicaid, student loans, and food stamps. A number of the programs that may be cut, like food stamps and Medicaid, benefit people who have been affected by Hurricanes Katrina and Rita. An additional \$15 billion in mandatory spending reductions will mean deeper and more harmful cuts to programs such as these – a level of cuts that even Senate Republicans have shown no interest in pursuing. Meanwhile, across-the-board appropriations reductions, if included, could mean cuts to programs like veterans' health, home energy assistance (LIHEAP), law enforcement, public health, environment, education, and even defense and homeland security.

Highlights of Possible Reconciled Cuts — Under one possible scenario discussed below, the revised reconciliation instructions could impose larger reductions on programs already slated to be cut, as well as expanding the range of programs that may be cut. For example:

- **Medicaid** — A \$10 billion cut to Medicaid could be increased by \$1 billion, to \$11 billion;
- **Student Loans** — The \$8.7 billion in reductions already slated for the student loan programs could be increased by \$5.5 billion, to \$14.2 billion – or even higher, given that the Education and the Workforce Committee does not appear to have identified sufficient spending cuts to meet its original target; and
- **Nutrition and Agriculture** — The Republican budget amendment will reportedly increase the original instruction to the Agriculture Committee by \$1.5 billion, for a total cut of \$4.5 billion. The major mandatory spending programs under the Committee's jurisdiction are farm subsidies, crop insurance, conservation programs, and food stamps. Food stamps alone account for more than half of all spending under the Committee's jurisdiction and are therefore at risk of bearing a large share of the total cut.

Revised Budget Resolution Will Still Increase Deficit — Republicans passed a budget resolution this spring that over five years was going to make the deficit \$168 billion worse than if they took no budgetary action at all. Now they plan to revise their budget resolution with additional cuts – likely an additional \$15 billion of cuts in mandatory spending and perhaps \$16.9 billion in cuts from a 2 percent across-the-board cut in all discretionary funding. Even with this \$32 billion in additional cuts – likely to fall on critical services – the Republican resolution would still worsen the budget's bottom line by more than \$100 billion.

Democrats Support Fiscal Responsibility — Democrats have a strong track record on fiscal responsibility. In the 1990s, President Clinton and Democrats in Congress worked together to move the budget from record deficits to record surpluses. The budget resolution offered by House Democrats this year balanced the budget by 2012, while the Republican budget never reaches

balance, even with these proposed changes. Democrats also support reinstatement of the effective pay-as-you-go (PAYGO) rule that helped take the budget from record deficits in the early 1990s to a \$236 billion surplus just five short years ago. If the budget resolution is going to be revised, it should reinstate the PAYGO rule to be sure that new mandatory spending or revenue legislation does not make the deficit worse.

Details on Mandatory Spending Cuts

Revised Budget Resolution to Increase Mandatory Cuts by 44 Percent — The original budget resolution instructed eight House authorizing committees to find a total of \$35 billion over five years in spending reductions – a number that the revised budget is expected to increase by \$15 billion (44 percent) for a total of \$50 billion in cuts.

New Cuts May Fall Primarily on Four Committees — While Republicans have not announced how they intend to allocate the new mandatory cuts, press reports have discussed one possible scenario that would distribute most or all of the additional \$15 billion among four committees: \$1.5 billion to Agriculture; \$5.5 billion to Education and the Workforce; \$1.0 billion to Energy and Commerce; and \$7.0 billion to Ways and Means. This scenario – while not definitive – is illustrative of the kind of revision to the reconciliation instructions that could occur. The following table presents the reported scenario.

Potential New Reconciled Spending Cuts in Republican Budget Amendment (billions of dollars)			
<i><u>House Committee</u></i>	<i><u>Original Reconciled Cuts</u></i>	<i><u>Reported Possible Additional Cuts**</u></i>	<i><u>Total</u></i>
Agriculture	-3.000	-1.5	-4.5
Education and the Workforce	-12.651	-5.5	-18.2
Energy and Commerce	-14.734	-1.0	-15.7
Financial Services	-0.470	---	-0.5
Judiciary	-0.300	---	-0.3
Resources	-2.400	---	-2.4
Transportation and Infrastructure	-0.103	---	-0.1
Ways and Means	-1.000	-7.0	-8.0
<i>Total, 2006-2010</i>	<i>-\$34.658</i>	<i>-\$15.0*</i>	<i>-\$50.0*</i>

*Approximate numbers.

**Based on October 19 press report. Actual distribution of revised cuts may well be different.

Agriculture Committee — The original budget resolution requires the Agriculture Committee to cut spending by \$3.0 billion. The Republican budget amendment will reportedly increase that amount by \$1.5 billion, for a total cut of \$4.5 billion. The major mandatory spending programs under the Committee's jurisdiction are farm subsidies, crop insurance, conservation programs, and food stamps. Food stamps alone account for more than half of all spending under the Committee's jurisdiction and are therefore at risk of bearing a large share of the total cut. However, the food stamp program has steadily improved efficiency and payment accuracy in recent years; there is no significant waste in the program to cut. Consequently, any sizeable cut to the food stamp program would likely mean reducing benefit levels (currently about \$1 per person per meal) or narrowing the eligibility criteria in order to eliminate hundreds of thousands of low-income individuals and families from the program entirely.

Education and the Workforce Committee — It has been reported in the press that the budget amendment will increase the Committee's reconciled cut by \$5.5 billion, to a total of \$18.2 billion over five years. The Committee has approved two bills that saved \$10.6 billion – still \$2.0 billion short of the Committee's original reconciliation instruction. (H.R. 2830, the Pension Protection Act, cuts direct spending by \$2.0 billion, and H.R. 609, which reauthorizes the Higher Education Act, cuts spending on the student loan programs by \$8.7 billion.) The \$2.0 billion in cuts that the Committee has yet to identify to meet its original instruction, along with the possible \$5.5 billion in additional spending cuts, are likely to fall primarily on student loans. The Committee could make these cuts in some of the following ways:

- ***Eliminate Provisions That Cost Money*** — The Committee could eliminate the two major provisions in H.R. 609 that cost money – raising the amount students may borrow from the federal loan programs and reducing the origination fees they pay on loans – and thus save about \$5 billion.
- ***Substitute the Senate's Interest Rate and Lender Yield Changes*** — H.R. 609 makes three changes in student loan interest rates that together save \$9.2 billion. The Committee could choose instead to follow the Senate HELP Committee's proposed changes on lender yields and interest rates, which could save significantly more.
- ***Further Increase Pension Premiums*** — The Committee could adopt the Senate HELP Committee's proposals that significantly raise the premiums paid to the Pension Benefit Guaranty Corporation by employers with defined benefit plans. The Senate Committee reportedly saves about \$6.7 billion, compared with the \$2.0 billion that the House bill saves by raising premiums.
- ***Make Cuts in Other Programs Not Previously Targeted*** — The Education and the Workforce Committee could cut child nutrition programs (school lunch and breakfast) or vocational rehabilitation state grants, which are under its jurisdiction but have so far not been subject to spending cuts under reconciliation.

Energy and Commerce Committee — The original budget resolution instructed the Committee on Energy and Commerce to find spending cuts of \$14.7 billion over five years; reportedly, that target is now expected to increase by \$1 billion, for a total of nearly \$16 billion in spending cuts. At the lower target of \$14.7 billion, reports were that the Committee intended to cut Medicaid by approximately \$10 billion, with an additional \$8 billion to \$9 billion net savings from spectrum receipts. Thus, the Committee appeared to already be exceeding both its old and reported new targets. While it is feasible that the increased target could be met by the policies already under consideration, the Committee may decide to cut Medicaid even deeper in order to find the extra \$1 billion in spending cuts.

Resources Committee — While not reportedly slated to get an increase in its reconciled cut, the Resources Committee is nevertheless expected to have the fifth largest reconciliation target. The Resources Committee is likely to assume revenues from opening the Arctic National Wildlife Refuge to oil and gas exploration, a proposal in the President's 2006 budget. CBO estimates that opening the Arctic to drilling will net \$2.5 billion in revenues to the federal government over the 2006-2010 period, after distribution of the same amount to the State of Alaska. The Senate Budget Committee Chairman has noted that the reconciliation instructions make it possible to use the budget process to open the Arctic Refuge to drilling by protecting this initiative from a Senate filibuster. This week, the Senate Energy and Natural Resources Committee passed its proposal to drill in the Arctic to meet its reconciliation target.

Ways and Means Committee — The reconciliation spending cuts assigned to the Ways and Means Committee reportedly will increase by \$7 billion, resulting in a total cut of \$8 billion. The increase in the size of the spending cuts will make it much harder to avoid cuts to key programs that were not

previously considered reconciliation targets. For instance, despite recommendations from the Medicare Payment Advisory Commission to remove Medicare overpayments to private plans, the Administration opposes cuts to Medicare in reconciliation, and many Members of the Republican leadership have expressed willingness to abide by those wishes. However, a \$7 billion increase in the reconciliation target for Ways and Means makes Medicare cuts a more realistic possibility. The human resource programs under the committee's jurisdiction are also likely targets for cuts. These programs include unemployment compensation, Supplemental Security Income for poor elderly and disabled individuals, foster care assistance, the Earned Income Tax Credit for low-wage workers, child care assistance, and Temporary Assistance for Needy Families.

Details on Possible Discretionary Spending Cuts

Revised Budget Resolution Might Cut Appropriations Across the Board — Chairman Nussle has proposed revising the budget resolution to reflect an across-the-board cut in 2006 discretionary spending, including defense and homeland security, of 2 percent. Because some House Republicans have disagreed with this proposal, it is not clear whether appropriations cuts will be included in the final package, and, if so, at what level. (The budget resolution amendment's treatment of appropriations might even be limited to non-binding language expressing a commitment to cut appropriations later in the year.) If included, a 2 percent cut would eliminate \$16.9 billion from the planned spending level of \$843 billion – the level in both the Republican budget resolution and the President's budget for 2006. Senate Republicans have not indicated any intention to pursue a similar cut.

2 Percent Cut Would Be Larger Than Previous Cuts — Congress has enacted across-the-board cuts in omnibus appropriations bills in five of the last six completed appropriations cycles (Fiscal Years 2000, 2001, 2003, 2004, and 2005). The across-the-board cuts varied in size from 0.22 percent for 2001, to 0.8 percent in 2005. If pursued, a cut of 2 percent – as Chairman Nussle has proposed – would be more than twice as big as the next largest cut enacted.

2 Percent Cut Would Mean Less Funding in 2006 Than in 2005 — Cutting the 2006 appropriations bills by 2 percent would represent a cut of \$3.4 billion below the 2005 non-emergency level of \$829.5 billion.

Cuts Could Include Defense and Homeland Security — Chairman Nussle has proposed applying the across-the-board cut to all areas of discretionary funding, including defense and homeland security. If included, a 2 percent across-the-board cut from the budget's planned 2006 discretionary levels would mean:

- **Defense** — a \$9 billion defense cut (this does not include emergency war funding);
- **Homeland Security** — cutting non-defense homeland security programs by \$583 million below the level requested by the President and provided in the budget resolution, by \$252 million below the amount needed to maintain services at the 2005 level, and by \$53 million below the comparable 2005 enacted level; and
- **Non-Defense, Non-Homeland Security** — slashing the remaining non-defense, non-homeland security programs to a level that is \$14.0 billion below the amount needed to maintain services at their current levels, \$10.4 billion below the 2005 enacted level, and \$7.5 billion below the level provided in the President's budget and the budget resolution.

2 Percent Cut Would Have Harmful Impact on Critical Services — If the 2 percent cut were pursued and distributed equally across all programs, the following are some examples of the impact on funding for critical services:

- ***Energy Assistance (LIHEAP)*** — The House-passed appropriations already cut funding for the Low-Income Home Energy Assistance Program (LIHEAP) by 8.0 percent (\$175 million) below the 2005 enacted level. An additional cut of 2 percent would reduce funding by another \$40 million, leaving overall funding \$215 million (9.9 percent) below the 2005 enacted level. Given the sharp increase in heating prices expected this winter, any additional cut will further jeopardize the well-being of the people – 35 percent are elderly and 24 percent are working families who do not receive other public assistance – in every state who rely on LIHEAP to help cover their energy bills.
- ***Veterans' Health Care*** — The Administration recently submitted a \$2 billion budget amendment to address acute shortfalls in the 2006 budget for veterans' health care. These additional resources are needed to maintain current services and to care for a greater than anticipated number of veterans returning from the wars in Iraq and Afghanistan. An across-the-board 2 percent reduction would reduce veterans' discretionary funding by more than \$600 million, making the shortfall much worse. Based on VA projected health care costs, this reduction translates to nearly 100,000 fewer veterans receiving health care in 2006.
- ***Environmental Protection*** — EPA received \$7.7 billion in the already-enacted 2006 appropriations bill, which was a \$327 million (4.2 percent) cut below the 2005 enacted level. A 2 percent cut would reduce 2006 spending for the EPA by an additional \$154 million, further jeopardizing clean water and drinking water infrastructure programs, leaking underground storage tank cleanup efforts, the ability to clean up Superfund sites, and other important programs.
- ***Special Education*** — A 2 percent cut in special education funding would cut 2006 funding to below the 2005 level, and would further reduce the share of costs that the federal government covers to only 17.7 percent, far less than half of the 40 percent “full funding” authorized to help more than 6.9 million students receive special education.